

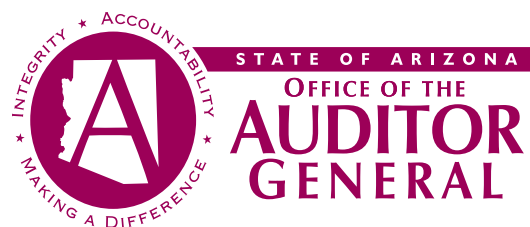
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Deer Valley Unified School District No. 97

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

July 30, 2008

Governing Board
Deer Valley Unified School District No. 97
20402 North 15th Avenue
Phoenix, AZ 85027-3636

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review and our performance audit of the District dated December 2006, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Executive Director for Fiscal Services in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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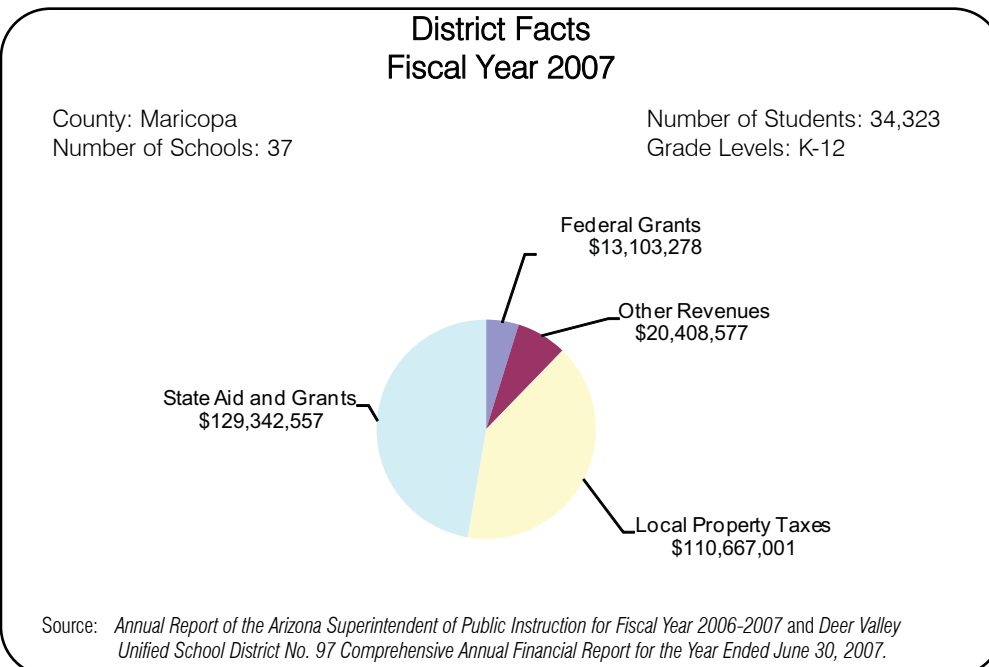
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INTRODUCTION

Deer Valley Unified School District No. 97 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$270 million it received in fiscal year (FY) 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the Uniform System of Financial Records (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, and our performance audit of the District dated December 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should improve its controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules or the USFR guidelines. For example, the District did not

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

always obtain oral price quotations for purchases that required them. Also, the District did not always prepare and retain a written determination that the use of competitive sealed bids was either not practicable or not advantageous prior to issuing requests for proposals (RFPs), or include all required information in RFPs issued. In addition, the District did not always retain documentation for multiple award purchases that indicated why a multiple award was more advantageous to the District than a single award. Further, the District did not always approve vendors as a sole source before making sole source purchases.

The District should also accurately record expenditures and ensure that all travel expenditures are within allowable limits. However, the District did not always record expenditures in accordance with the USFR Chart of Accounts and in the appropriate fiscal year. Additionally, the District's travel reimbursements were not always within the limits set forth by the Arizona Department of Administration (ADOA).

Recommendations

To comply with School District Procurement Rules and USFR guidelines and to strengthen controls over expenditures, the District should perform the following:

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Retain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District before issuing an RFP.
- Include all applicable factors in its RFPs, including the name of the district representative.
- Document the specific reasons, in writing, that a single award is not advantageous to the District before contracts are awarded to multiple vendors.

Guidelines for oral price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

- Obtain a written determination from the Governing Board that there is only one source for the required materials, service, or construction items before sole source purchases are made.
- Record expenditures in accordance with the USFR Chart of Accounts and in the fiscal year they are incurred.
- Ensure that travel reimbursements are within the limits sets forth by the ADOA.

The District's controls over credit and procurement cards should be strengthened

Because of the relatively high risk associated with transactions involving credit and procurement cards, school districts should establish and maintain effective internal controls to safeguard and restrict credit and procurement card usage to district business. However, the District did not have strong controls over its credit and procurement cards. Specifically, the Governing Board did not establish formal written policies governing the use of the district credit or procurement cards, including dollar limits for purchases. Also, the District did not always retain documentation to support procurement card purchases. Further, the district employees making credit card purchases were not always clearly identified on credit card receipts.

The District's lack of credit card policies and documentation for purchases left district monies susceptible to theft or misuse.

Recommendations

To strengthen controls over credit and procurement card purchases, the District should establish and maintain formal written policies governing the use of credit and procurement cards by authorized employees. The policies should specify purposes for which the cards may be used and dollar limits for transactions and billing periods. Also, the District should retain supporting documentation, such as receipts, invoices, etc., for all credit and procurement card purchases. Further, the District should ensure that employees making each credit or procurement card purchase clearly identify themselves on the credit or procurement card receipt and promptly submit the receipt to the business office. Employees should clearly indicate their name and the specific district purpose for the expenditure on the receipt.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, entry dates in the computerized attendance system did not always agree to supporting documentation and the District did not always retain or properly complete withdrawal forms. In addition, students withdrawn for ten consecutive unexcused absences were not always withdrawn as of the first day of nonattendance and pre-kindergarten students without disabilities were incorrectly included in the District's reported membership. Also, the District's absences uploaded to ADE for the 40th-day reporting period did not agree to the District's attendance records. Further, the District did not always properly calculate absences for all grade levels and Joint Technological Education District (JTED) students. Finally, the District did not maintain guardian-approved daily logs to support attendance reported for Technology Assisted Project-Based Instruction (TAPBI) students.

The District's records were not adequate to support the membership and attendance information reported to ADE.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should perform the following:

- Prepare and retain a withdrawal form signed by an appropriate school administrator for each student withdrawn.
- Assign a second employee to verify that the entry and withdrawal dates recorded in the District's computerized attendance system agree to student entry and withdrawal forms and teachers' attendance registers.
- Retain documentation to support when student entries and withdrawals are entered into the District's computerized attendance system. Entries and withdrawals should be entered within 5 working days.
- Ensure that students withdrawn for ten consecutive unexcused absences are only counted in membership through their last day of attendance.
- Verify that membership and absences reported to ADE agree with the District's computerized attendance system, teachers' attendance registers, and sign-in and sign-out logs.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Only include pre-kindergarten students with disabilities in membership and absences submitted for pre-kindergarten programs.
- Calculate absences for elementary, junior high, high school, and JTED students in accordance with ADE's Instructions for Required Reports.
- Retain a guardian-approved daily log describing the amount of time spent by the student on academic tasks for each TAPBI student.

The District must use its Classroom Site Fund monies properly

The Classroom Site Fund (CSF) was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as additional funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend CSF distributions in accordance with Arizona Revised Statutes (A.R.S.) without supplanting other monies available. However, the District did not retain sufficiently detailed records to demonstrate that CSF monies were spent in accordance with statute and the District's performance pay plan, and to determine the amount of CSF monies paid to eligible employees. As a result, the District may have used CSF monies to supplant about \$1 million of Maintenance and Operation (M&O) Fund monies.

The District did not adequately document the use of its CSF monies.

Recommendations

The District must ensure that CSF monies are used in accordance with A.R.S. §15-977. To help ensure that CSF monies are spent in compliance with statute, the District should maintain detailed accounting records in each CSF, and document each eligible employee's level of achievement related to the District's performance pay plan. Also, the District must use CSF monies to supplement rather than supplant existing monies from all other sources and must retain documentation to support that supplanting did not occur. In addition, the District must reimburse all CSF monies used to supplant non-CSF monies in any fiscal year and revise the related annual financial reports (AFR) to report the expenditures in other appropriate funds. The revised AFRs should be filed with ADE.

USFR Memorandum No. 194 provides guidance on accounting for CSF monies.